



TO: Board of Selectmen

FROM: Christopher Clark, Town Administrator

DATE: February 10, 2014

SUBJECT: Fiscal Year 2015 Budget Message

I. Introduction and Summary Material

It is my privilege to present my first balanced budget for the Town of Harwich. The balancing of the budget did not come without difficulty. This budget utilizes the full capacity of Proposition 2 1/2, realizes reductions in the current Monomoy budget projection, contains significant reductions in the requested additional services of departments and presents the voters with the opportunity to continue improvements to the environment and to the community at large. Whereas this is my first budget and I have had a little over one month to prepare, some elements are in a rudimentary form that as time and learning go on future budget messages will contain additional observations and suggestions for the Board of Selectmen to consider in moving the community forward.

It is often said that government cannot operate like a business; however, I do believe that there are successful guiding principles that can be followed from an effective government management perspective. Standard & Poor's, one of the country's leading rating services, has prepared a paper entitled "The Top 10 Management Characteristics of Highly Rated U. S. Public Finance Issuers". This document attached as Exhibit 1 will be one of the guiding documents of this administration during my tenure as I present responsive and responsible budgets to the Board of Selectmen

1. Focus on Structural Balance
2. Strong Liquidity Management
3. Regular Economic and Revenue Updates to Identify Shortfalls Early
4. An Established Rainy Day/Budget Stabilization Reserve
5. Prioritized Spending Plans and Established Contingency Plans for Operating Budgets
6. Strong Long-Term and Contingent Liability Management (OPEB)
7. A Multi-Year Financial Plan in Place the Considers the Affordability of Actions or Plans before they become part of the Annual Budget.
8. A Formal Debt Management Policy in Place to Evaluate Future Debt Profile
9. A Pay-As-You-Go Financing Strategy as Part of the Operating and Capital Budget
10. A Well-Defined and Coordinated Economic Development Strategy

The Town of Harwich approached Standard & Poor's ratings services to complete a rating in July 2013. The town was assigned its AA+ long-term rating for the series 2013 general obligation bonds at the same time it reaffirmed our AA+ long-term rating on the Town's existing general obligation debt the outlook on the ratings is stable. The ratings reflected the views of the Town as follows:

- Extremely strong property wealth due to its oceanfront location
- Good financial position and financial management policies
- A still good financial reserve position despite recent declines
- Moderate to low debt burden, coupled with rapid principal amortization; and
- Sizable long-term pension and Other Post Employment Benefit (OPEB) liabilities, though recent changes could reduce these liabilities a bit over the next few years.

The Finance Team and I will endeavor to provide stable, consistent budgets with only moderate increases based upon past levels of acceptability while presenting options to the Town to improve our Bond Ratings. As noted in Standard & Poor's ratings, the combination of a good financial management team, along with strong political leadership, leads to stability and confidence. Administration will seek ways to improve its standing with S&P.

The FY2015 Budget builds on concepts that I have developed over the last several years, maintaining the services the community currently enjoys and takes advantage of opportunities presented.

This budget message, will develop over time more fully, has several elements that make it as much a planning tool as a balanced budget plan. This message also includes nine areas of interest.

- Budget Comparison
- Major Initiatives
- Historical Budget Data
- Projection Model
- Select Budget Data
- Debt Structure
- Capital Budget
- Reserve Funding Plan
- Economic Development

II. Budget Comparison FY2014 vs. FY2015

This document is designed to provide an overview of the FY2015 Budget. The Total Revenue for FY2015 is \$53,471,738 and the Total anticipated expenditures are \$53,471,738 creating a balanced budget. The FY2015 Budget has been predicated on the Governor's House 2 Proposal that includes level funded amounts.

On the **Revenue Side**, the overall increase is slated at a modest 2.6%. Property Tax is a primary part of the equation for all elements of (including new growth) Proposition 2½, we are using all of the allowable amount totaling which includes New Growth and the total increase is slightly less than 2.4%. The revenue generated by this amount is \$963,299.

"Free Cash" has significantly dropped from FY2014 where over \$1.4 million was available to fund the Capital Program last year this year's amount is approximately \$400,000 (DOR has not yet certified the

number). The utilization of Free Cash should be expanded as to not only have it be used for Capital but an additional portion should be used to fund our Stabilization Account that could be used to meet unforeseen contingencies. This year's Free Cash will be mostly used to make up for the anticipated Snow and Ice Deficit leaving only about \$100,000 to put towards Capital.

I also plan to use \$100,000 from our Overlay Surplus to support the budget. No anticipated use of Stabilization Funds is contemplated.

Local Receipts have moved modestly up as Motor Vehicle Excise receipts edged up along with other items. The overall increase of Local Receipts is up 5% or \$456,720. One of the significant factors in this increase is the accounting for the anticipated revenues or savings to be generated by the solar facility on the Town's former landfill. This project is currently under construction and we are anticipating operation of the facility prior to or during the next fiscal year.

The transfer from other available funds primarily related to indirect costs and CPC Funds is anticipated to be down slightly.

The potential sale of the Middle School could contribute to the budget but only if it is a timely sale or significant lease. These actual and anticipated revenues will be placed into a Sale of Land Account to be used for Capital, Debt Services or land purchase purposes.

On the **Expense Side** of the equation, the focus has been on Education Assessment of Monomoy with an anticipated decrease not being realized and a modest increase planned for of 0.6% with that number assuming the Town's portion of a reduction in the Monomoy budget of \$200,000 from the elimination of the OPEB Funding element of the budget for this year. The E&D fund for the regional school is not known at this time.

The total Town Operating Costs are increasing by \$405,069, increasing by 2.2%. This includes salary adjustment some modest increase of services such as restoring the second day position at the Fire Department, a half time (19 Hours) Assistant Harbormaster and modest hour increases to the Library and Nurse at the COA.

Retirement costs are increasing by \$47,638 or a 2.2% increase; ***Group Health and Life Insurance increase of \$2,883 or 0.1%.***

SALARY & WAGES: The FY 2015 Budget includes the negotiated and the anticipated negotiated settlements for FY 2014 and does provide for a modest amount for FY 2015. The Town of Harwich has eight Unions including Firefighters, Harwich Employees Association "HEA", Highway Union and Department Heads (SEIU), and Police Superior which have all settled through FY 2014. The Police Patrol, Water Union (IAMAW) and the Dispatchers Union (NEPBA) are in negotiations process.

In total, Administration reduced requests from Departments by \$463,521 with an additional projected \$173,597 coming from Cape Cod Tech due to a decrease in Harwich enrollment. The overall budget increase taking into account all the items mentioned above with the revenues anticipated is 2.7%

If these balanced budget recommendations are not taken, then the Town will need to either increase local taxes or reduce its operating costs by a like amount in order to bring the budget back into balance.

III. Major Initiatives in FY 2015 Budget

A. Monomony Regionalization Challenge

The Monomony Regionalization School has created the expectation of significant savings as detailed in the Abrahams report, savings that were realized in Chatham and were expected but not realized in Harwich. The Town of Harwich was anticipating a savings of over \$1 million. The reality of the budget submitted by the regional school is a modest increase. The expectations of the various departments and Harwich was that FY 2015 would present the opportunity to reestablish levels of services that had not been seen in several years. The Town Budget departments submitted requests to reflect this eventuality. Administration is anticipating some additional reductions in the regional school budget submission and has captured some of those savings and have reflected those in this budget. However, Administration is compelled to balance the budget with the availability of resources provided under Proposition 2 ½ to that end, Administration has pared out over \$450,000 in additional service levels sought by several departments. The budget reductions are noted in section 2 of this budget message. Administration has also been required by necessity to seek capital exclusion, debt exclusion and grants to attempt to meet capital needs of the various town departments. Administration understands that this will lead to a greater level of tax burden than anticipated. Any additional savings or reductions that can be realized by the regional school will help to lessen this burden.

B. Human Resource Improvements – Personnel Changes/ Restructuring The Organization

Prior to my official arrival as Town Administrator for the Town of Harwich, it was abundantly clear that the organization was in need of a more comprehensive human resources services delivery. The organization contains several departments and divisions with a wide variety of varying levels of staffs and services. The organization also contains eight various unions with various concerns and needs that need to be addressed. Administration has undertaken the recruitment of an Assistant Town Administrator to assist in the administration of the human resources function.

The organization also has a wide variety of departments and divisions that I believe would benefit from having a clearer organizational structure. To this end, one of the top priorities in this fiscal year and coming fiscal year will be to lay out the framework for an organizational restructuring. I believe that in this restructuring we will need to take into account the opportunity that presents itself in some of the strengths of the organization already. The Town will also need to work to address how it is going to meet the challenge of continuing growth in the business and residential sectors space while continuing its efforts to protect the vital resources of our environment. The creation of a new utility in the form of natural resources/sewer utility will be of vital importance and also a high priority of this administration.

C. Infrastructure Improvement and Sales– Waterways, Environment

This community like many others in Massachusetts is faced with the significant issue of maintaining and expanding the infrastructure of the community to provide for the existing businesses and residents but also for the future development of the community. The waterways of this community including the three harbors have been an area of great concern and are in varying levels of need (some desperate) for improvement also as noted above the preservation of the environment through various analysis of developments impacts on the environment and how to mitigate those impacts through capital improvements will need to be realized. Traditional capital improvement needs continue to exist in the various buildings and grounds such as Library carpets, Department of Public Works recycling and

trash facilities located at the transfer station, vehicles for DPW operations and equipment replacements/building maintenance issues at our public safety facilities. Facilities such as Town Hall will need to be also put into the thought process to continue to maintain it as a viable facility for the foreseeable future.

The Town also needs to right size the organization from an asset standpoint and where assets are deemed to be surplus those assets should be identified and sold off to meet the needs of the larger Harwich community. The soon to be former middle school is an example of such an asset. Administration will work with the middle school reuse committee to process interests by private parties in this asset. Administration also recognizes that if the building needs to be retained that it will have a carrying cost to it to preserve the asset prior to its sale.

D. Review of Departmental Operations for Self Sufficiency

Managing in Massachusetts presents significant challenges but it also presents opportunities that need to be identified and realized in an efficient and responsible manner. Massachusetts General Law chapter 44 section 53 with all the subsections provides the opportunity for towns to be able to create a level of self-sufficiency in various departments. Harwich has already utilized some of these statutes to head towards self-sufficiency in its water department. I would like to explore over the next several months and into the new fiscal year looking at the tools available to us under Mass General Law to explore revisions to the way we operate our waterways, ambulance service, recreation services and other departmental operations by identifying and linking revenue sources with capital improvement requests and needs. This effort will take some time to be done in an effective manner that will not damage the transition of these operations from general fund to specialized funds. These efforts will be done in a collaborative manner with the input from administration, finance, the applicable department and potentially from other interested persons.

I do believe as an element of due diligence that the Town needs to research its current fee structure to ensure that our fee structure is competitive with other towns on the Cape without being excessive. This review will also be conducted over the next several months and into the next fiscal year. The findings of our research will be shared with the board of selectmen for potential action.

IV. Historical Tax Levy Data

The Assessing department has prepared three charts which identify some interesting elements to our tax Levy here in Harwich. The first slide shows the overall tax base levy limit percent increase from 2009 to 2015 for each of those years with the exception of 2014 the Tax Levy has increased between 3% and 4%. 2014 had a greater increase due to an override Levy that added 2.9% on top of the typical average. The second chart identifies the base levy limit in dollars and as one can see there is a consistent increase to offset the various costs of operating the government here and Harwich. The third chart breaks down the levy limit calculation by identifying the various components. The Town has a consistent support for debt exclusion and capital exclusion items. This is very noteworthy as Standard & Poor's will look favorably on this as a community's willingness to meet its obligations as an organization when it comes to infrastructure improvements.

V. Projection Model

The Finance team and I will work on the extensive material available for financial data to develop models for Projection to layout strategies for creating a greater sustainability modeling to attempt to predict what actions or inactions to various policy suggestions will have on future finances of the Town. Alternate revenue sources must be explored and cost containment measures taken in order to balance the budget. As in any Revenue and Expenditure Forecast, the accuracy of the first year is very high and the accuracy of the out years is lower as you cannot predict or guarantee future developments with great certainty as the Great Recession has just taught us.

VI. Select Budget Data

Items of significance such as Cherry Sheet (State) Receipts, Meals and Room Tax and Group Health and Life will be covered in the Selected Data Section. Areas will change over time to reflect future items of concerns.

- A. ***Cherry Sheet Receipts (State Aid).*** No Chart Shown. Harwich's direct reliance upon state aid is fairly minimal when one takes into account that the majority if not all of the state revenue is offset by state charges. I do believe it is important to monitor state Cherry sheet receipts as they impact the two regional schools in which the Town has an assessment. Increased chapter 70 funding for the schools should lead to a decrease in town costs via the assessment.
- B. ***Meals and Room Tax.*** The Town approved the Room and Meals Tax back and it has been an important component in stabilizing and diversifying the Town's revenue. In FY 2013 it generated over \$800,000. Proposition 2½ base increase accounts for approximately \$900,000 per year in additional revenue and these combined tax is a very helpful additional revenue source.
- C. ***Group Health and Life Insurance:*** Health Insurance has been a very complex problem as rates are based upon experience which when experience has been good then increases are modest and years in which experience has been poor than rates have climbed higher. Outside Federal government impacts and health care inflation also add into the mix. Health insurance in Harwich has been in transition with the advent of the regional school decreasing our enrollments significantly from 2012 to 2013 thus creating a significant reduction in direct costs to the town side budget. One quick observation of our health insurance is that it appears that our rates have moderated based upon two factors: one, the regional consortium in which we belong has been effective in moderating rates so the rates for active employees only increased 1.6% for FY 2015. The second factor is the migration of the eligible retirees under 65 years that stay on our active health insurance plans conversion to retiree health insurance plans offers a savings to the community for each transition. The chart does reflect increases into the future based upon historic trends in general of health insurance rates. We will carefully monitor the utilization of health insurance.

VII. Debt Structure

Any good financial planning document will include how the Town will structure and fund its debt. The goal of a good debt plan would be to maintain and sustain a consistent level of debt. The charts show both actual debt and estimated figures. Attached you will see two (2) graphs that show the Gross Debt

including the Debt Exclusion for the High School. As the chart will show, the new school will create a significant spike in the short term to our tax as this is added above the Proposition 2 ½ as is much of the debt. The total town debt service is inclusive of all betterments and land banks and includes the net of the SBA reimbursement for the elementary school payments due through 2017. The highway authorization in the Skinequit Road betterment authorization both voted at the 2013 Annual Town Meeting are projected and included in the debt service presented. The Monomony debt is included with the exception of the Chatham middle school debt which comes through on our assessment. That debt service is the excluded dad of the Town of Chatham.

I am impressed by our Town Treasurer that our debt service is actively managed and refinanced as opportunity permits.

Water – The Water Department shows debt falling off of projects with the first fall off occurring in 2016 and the second significant fall off in 2023. As debt falls off, additional Capital projects will be pursued via available cash to meet the needs of the Capital Program of the water system. It is my intent to work closely with the Water Superintendent and the Water Commission to utilize this available borrowing capacity to meet the needs of our water infrastructure.

VIII. Capital Budget

The FY 2015 Capital Budget included a great number of items; however, with a reduction in the free cash from last year to this year of \$1 million and the necessity to dedicate \$300,000 to snow removal for this year has significantly reduced administrations ability to fund the FY 2015 capital program.

Administration's Capital Funding Recommendations:

• Fire replace power stretchers	\$56,000	capital exemption
• Fire ambulance replacement	\$240,000	capital exemption
• Highway roads and sidewalks	\$500,000	debt exclusion
• Highway transfer station scale	\$250,000	capital exemption
• Highway vehicle replacements	\$280,975	capital exemption
• Harbor fire pump for boat	\$ 21,715	tax levy
• Harbor replace Alan harbor bathroom	\$ 75,000	tax levy
• Harbor Wychmere town dock repair from harbor receipts	\$ 622,600	grant and \$ 478,400 borrowing to be paid
• Harbor maintenance dredging	\$500,000	capital exemption
• Library carpet for Brooks free library	\$112,000	tax levy
• Wastewater CWMP completion	\$150,000	tax levy
• Wastewater Muddy Creek construction	\$1,750,000	grant

All Other items that were submitted but not listed are deemed to be deferred for future years.

IX. Reserve Fund Balances

I consider Reserves in a general way to include in part available Free Cash, Stabilization Fund, OPEB Trust Fund and any other sources applicable recognized by the various bond rating agencies. It will be the intent of this Administration to move Reserves to a range of 8% to 12% over this course of time. In

order to progress our current AA+ rating, the current levels of Reserves will need to be improved as a percentage of General Fund operating budget. The Town's contemplation of any borrowing will necessitate, along with general good future financial practices, that these Reserves be maintained at current levels but begin to progress to the above mentioned levels.

As indicated on the Reserve Charts, we are currently ranging from 2% to 3% while the chart shows a target of 7% as the first interim step to our target of 12%.

X. Economic Development Strategy

Administration will review current practices and adopt a multifaceted Economic Development Strategy over the next several years. The essential elements of this strategy include:

- Advocate for single tax rate and stability in tax policy and water fee policy.
- Promote "Pro Business" friendly environment with businesses seeking to come to Town. Research efforts at the Chamber of Commerce, the County and the various State Agencies to seek out opportunities.
- Continue to support efforts to promote the Town in general and enhance tourist efforts.
- Actively market surplus Town property for sale such as the Middle School and to promote business development utilizing in part local newspaper stories.
- Review and/or Expand or Maintain our Pro-Business incentives
- Keep up with infrastructure roads, water to promote benefits of Town services, including schools.
- Continue to work to develop new business strategies such as promoting solar business with one under development on Town owned property.

Conclusions and Thanks

The FY 2015 Budget is balanced and I believe that following suggestions included in this message will strengthen the Town financially, economically and improve and maintain our organization.

Lastly, I wish to express my sincere appreciation to the financial management team of David Ryan, Mary McIsaac, David Scannell, Foster Banford and Diane Shaughnessy for their assistance in the development of these critical materials for the Town. I would also like to thank my staff, Sandy, Ann and Bob Lawton for their work along with a sincere appreciation for all Department Heads in submitting the budgets and reviewing them in detail with team members.

Most importantly, I wish to thank the Board of Selectmen and the residents of the community for the warm welcome and support that I have been given to this point and I look forward to continue working with both groups to adopt the FY2015 Budget and for the organization to continue to provide a higher level of service to the community at large.

CC

Attachments

RatingsDirect®

Summary:

Harwich, Massachusetts; General Obligation

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Related Criteria And Research

Summary:

Harwich, Massachusetts; General Obligation

Credit Profile

US\$2.9 mil GO bonds ser 2013 due 07/15/2022

Long Term Rating

AA+/Stable

New

Harwich GO

Long Term Rating

AA+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Harwich, Mass.' series 2013 general obligation (GO) bonds. At the same time, we affirmed our 'AA+' long-term rating on the town's existing GO debt. The outlook on the ratings is stable.

The ratings reflect our view of the town's:

- Extremely strong property wealth due to its oceanfront location;
- Good financial position and financial management policies;
- A still-good financial reserve position despite recent declines;
- Moderate-to-low debt burden, coupled with rapid principal amortization; and
- Sizable long-term pension and other postemployment benefit (OPEB) liabilities, though recent changes could reduce these liabilities a bit over the next few years.

The bonds are a GO of the town for which its full faith and credit is pledged. Harwich officials will use bond proceeds toward dredging a harbor.

With an estimated year-round population of about 12,600, Harwich is a residential community on the southeast corner of Cape Cod on Nantucket Sound, about 80 miles from Boston. Given the substantial number of seasonal second homes, the population is estimated to double in the summer months. While Harwich has been evolving into more of a year-round community, its economy continues to depend on second-home owners and summer visitors. Seasonal employment such as retail trade, accommodations, and food services accounts for a large portion of the local employment base. Accordingly, the unemployment rate increases significantly in the winter. The median household effective buying income (EBI) of the town's full-time residents is good, in our view, at 101% of the nation, and per-capita EBI is 111%.

Assessed valuation (AV) was \$4.6 billion for fiscal 2012, a 12% decrease from fiscal 2009, but the per-capita market value of about \$360,000, measured against the number of year-round residents, is one of Massachusetts' highest and a good reflection of Harwich's real estate wealth. Even after adjusting for the summer population, per-capita market value remains extremely strong, in our opinion.

Harwich maintains a good financial position, in our view, despite recent declines to reserves. Harwich's 2012 financial

statements report a \$915,000 decline to the general fund and an ending total fund balance of \$4.9 million, of which \$3.5 million (6.7% of expenditures) is assigned and unassigned. Property taxes are the largest revenues source, comprising about two-thirds of general fund revenues in 2012, and property tax collections have been sound, exceeding 99%.

For fiscal 2013, officials report stable budgetary operations, but did use about \$1.2 million of available reserves for one-time capital spending. This is expected to lower the unassigned general fund balance to about 4% of expenditures, a level we still consider good. While we believe available reserves may be lower compared to its peers, we note the town has demonstrated the ability and willingness to exceed proposition 2 1/2 levy limits, giving it some additional operating flexibility. The town continues to operate with its tax levy at or very close to the maximum levy limit as stipulated by Proposition 2 1/2, but has substantial room under the primary levy limit, which caps the tax levy at 2 1/2 of AV. Voters did pass a permanent override (effective for fiscal 2013) of \$990,000 for operating costs associated with the new school district. In addition, voters recently passed a \$714,000 capital exclusion (effective in 2014) to fund ongoing capital expenditures, lessening the need to fund from its general fund reserves.

Moving forward, the town anticipates to see budgetary saving from the recently created Monomoy Regional School District. Harwich is still responsible for providing school funding, but these costs are now assessed to Harwich and neighboring Chatham by the regional school district. The 2014 budget is balanced and totals \$50.3 million, a 1.6% increase from the prior year. Education costs are the biggest expenditure, along with public safety.

With the creation of the regional school district, plans are underway for construction of a \$65 million consolidated high school, expected to open in fiscal 2015. About half the costs will be supported by the Massachusetts State Building Authority and the remainder will be financed by Harwich and Chatham. Harwich town meeting voters approved a ballot referendum for an override of the Proposition 2 1/2 levy limit to pay the town's share of construction costs; town officials expect to issue \$25 million of bonds for the project within one to two years.

Standard & Poor's considers Harwich's financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. The town maintains a five-year financial forecast updated annually. The forecast helps to identify budget pressures and enables officials to adjust accordingly. The town adheres to its policy of using available reserves for nonrecurring uses only.

The town's debt burden is low at less than 1% of market value, but a moderate \$1,790 per capita. Debt service expenditures have historically been moderate at an average of 8% of total governmental funds annually over the past three fiscal years. About 54% of the town's existing debt is exempt from the levy limitations of Proposition 2 1/2. We expect debt service costs to rise with the bond issuance for the new high school, but these costs are offset by a rapid amortization schedule of outstanding debt (75% of principal retired over 10 years) and the dedicated property tax stream to support the debt provided by the voted debt exclusion. The town is continually assessing its capital needs and has identified material wastewater improvement projects, though it is uncertain about the scale and scope of any potential financing plan.

As for long-term liabilities, pension and other postemployment benefit (OPEB) costs account for about 8.2% of total

governmental funds expenditures. The town makes annual contributions to the Barnstable County Retirement Association for all employees other than teachers, with the fiscal 2012 contribution totaling \$2.5 million, or 5% of 2012 budgeted operating fund expenditures. The town's share of the unfunded liability of the county plan is \$31.5 million, equal to \$2,500 per capita (year-round population only) and less than 1% of market value. Harwich meets its OPEB obligations on a pay-as-you-go basis (though it does have a small \$300,000 OPEB stabilization reserve) and contributed \$1.8 million in fiscal 2012, or 3.8% of budget. The most recent estimate of the town's unfunded OPEB liability is sizable at \$81.1 million, or \$6,400 per capita (year-round population only) and 1.8% of market value. Town officials expect that the town's pension and OPEB liabilities will be reduced because the regional school district will assume the pension and OPEB costs for all new employees hired by the school system. Further, effective for fiscal 2013, the town now offers health care benefits through a plan similar to that offered through state's Group Insurance Commission; officials believe that this could also result in a reduction in the town's OPEB liability at the time of the next actuarial valuation.

Outlook

The stable outlook reflects Standard & Poor's belief that the rating on Harwich will not change within our two-year horizon given that we expect a steady operating performance and no material change in the town's financial position. While financial reserves are down from previous highs, they remain good and we note the town has demonstrated the ability and willingness to exceed its statutory levy cap, providing additional operating flexibility to fund ongoing spending. The potential for a higher rating would be strengthened by significantly higher reserves, maintenance of a moderate debt burden, and reduced long-term liabilities. Downward rating pressure could be triggered by recurring operating deficits, lower reserves, a higher debt burden, and continued growth in long-term liabilities.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of July 15, 2013)

Harwich GO

Unenhanced Rating

AA+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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The Top 10 Management Characteristics Of Highly Rated U.S. Public Finance Issuers

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Top 10 List

The Top 10 Management Characteristics Of Highly Rated U.S. Public Finance Issuers

(Editor's Note: This is an updated version of an article published July 26, 2010.)

U.S. public finance issuers are a varied group, but the management practices of the strongest borrowers show some distinct commonalities. Standard & Poor's Ratings Services has widely disseminated to investors and issuers its approach for assigning credit ratings in U.S. public finance (see "USPF Criteria: State Ratings Methodology," published Jan. 3, 2011; and "USPF Criteria: GO Debt," published Oct. 12, 2006, on RatingsDirect on the Global Credit Portal). We have also developed representative ranges for key ratios that factor into our analysis of tax-backed credit quality (see "USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality," published April 2, 2008). Although these ratios are the foundation of the quantitative measures Standard & Poor's uses when assigning a credit rating, Standard & Poor's also relies on qualitative factors to inform our credit analysis. In 2006, Standard & Poor's released its Financial Management Assessment, which offers a more transparent assessment of a government's financial practices, as an integral part of our credit rating process (see "Financial Management Assessment," published June 27, 2006). Our view of management factors, administrative characteristics, and other structural issues facing a government entity may be an overriding factor in a rating outcome.

(Watch the related CreditMatters TV segment titled, "What Do Highly Rated U.S. Public Finance Issuers Have In Common?", dated Aug. 14, 2012.)

We view management as contributing significantly to many of the individual credit ratios, which can positively affect ratings in a number of ways. On the whole, state and local governments have made many improvements to budget structure, reserve policies, and debt management during prior periods of budget stress. Whether these practices are developed as part of a comprehensive risk management plan or individually, they have, in our view, generally enhanced government's ability to manage through downturns and have contributed to credit stability over time. Conversely, we believe that the lack of strong management can be a significant factor in a weak credit profile. In our opinion, while the economy remains a key factor in assigning a rating level, our view of management and the institutional framework is usually one of the deciding factors in fine-tuning the rating.

Overview

- Our view of a government entity's management and administrative characteristics, along with other structural issues it faces, can move a rating up or down more significantly and swiftly than any other element of a credit review.
- We've observed some distinct commonalities in the management practices of highly rated U.S. public finance issuers over the years.
- Proactive budget and liability planning, strong liquidity management, and the establishment of reserves are among the factors the strongest issuers share.

When assessing management, Standard & Poor's analyzes the political and fiscal framework that governs it, as well as

the day-to-day management procedures and policies. There could be a strong management team in place, but if there is political instability or lack of political will to make difficult decisions, we have found that management could be ineffective in many cases. Standard & Poor's also focuses on the "whole of government." Our view of oversight and management controls covering the disparate operations of a government with a focus on accountability at each department or function is critical to strong credit ratings.

The following "Top 10" list of management characteristics associated with Standard & Poor's highly rated issuers is generally applicable to state and local governments as well as to other enterprise operations of government such as water, sewer, or solid waste. The relative importance of these factors may vary from issuer to issuer. Our view of credibility is an important part of a rating review process and management assessment. Every government has challenges, but we believe that identifying problems or issues and detailing how these will be addressed establish credibility and greater transparency in the rating process.

Top 10 List

1. Focus on structural balance

In our view, a structurally balanced budget is an essential characteristic of highly rated credits. There are many views of what constitutes a balanced budget. For some governments, a budget is balanced if current revenues plus available reserves match or exceed current expenditures. From Standard & Poor's standpoint, a budget is balanced if recurring revenues match recurring expenditures. In evaluating whether or not a budget is balanced, we analyze the underlying revenue and expenditure assumptions. We might not have a positive view of a budget that relies on optimistic revenue assumptions relative to the current economic environment to meet recurring expenditures. We consider recurring expenditures all of those that are typically incurred year after year and are required as part of a government's normal ongoing operations. This includes salaries, debt service, and pension payments among others. Consistent with our analysis of revenues, expenditure assumptions that rely on debt restructuring for budgetary savings, deferral of ongoing expenditures, and saving assumptions that have significant implementation risks could also color our view of whether a budget is balanced or not.

A government's ability to maintain or quickly return to structural balance during a period of economic weakness can lead us to affirm or raise an issuer credit rating. The opposite is also true. Reliance primarily on one-time measures without the appropriate re-alignment of revenues and expenditures could cause us to lower the ratings.

2. Strong liquidity management

An additional credit quality factor is management's ability to manage its cash flow and identify potential issues, internal or external, that could lead to a liquidity crunch. Potential for inadequate liquidity serves as a bellwether to the risk of immediate and potentially severe credit deterioration, particularly for those with significant budget misalignments and issuers of certain types of variable-rate debt, in our view. Ultimately, the possibility of having insufficient money to meet debt obligations is at the heart of our credit analysis. In the few instances where state or local governments may encounter genuine credit distress, it is likely accompanied and possibly exacerbated by problems with liquidity. Access to additional sources of internal or external liquidity and a plan on how, when, and in what amounts to access these, are a credit positive. However, just having access to additional liquidity, either through

pooled cash or loans from other funds, is not enough. The absence of clear accountability as to where the cash is coming from or when it will be paid back could create uncertainty about the sustainability of the cash flow and the potential implications of reallocating the cash from one use to the other.

In addition, some obligors' debt profiles include liquidity risk exposure tied to variable-rate demand obligations, alternative financing products, and other debt instruments. Under some of these structures, the potential for accelerated repayment causing sudden and significant demands on an issuer's liquidity could have credit implications (see "The Appeal Of Alternative Financing Is Not Without Risk For Municipal Issuers," May 17, 2011). We have found that management teams of highly rated credits are able to limit, mitigate, or develop a careful plan to manage the potential exposure to these liquidity demands.

3. Regular economic and revenue updates to identify shortfalls early

In our experience, having a formal mechanism to monitor economic trends and revenue performance at regular intervals is a key feature of stable financial performance. This is particularly true in the case of states, which we have observed tend to exhibit revenue declines during economic downturns because they rely on personal income tax, sales tax, corporate income tax, and other economically sensitive sources. We believe that evaluating historical performance of certain revenues is important to this analysis because each government will have different leading or lagging economic indicators that signal potential revenue variance issues based on its economic structure. The earlier revenue weakness is identified in the fiscal year, the more effective, in our view, the budget balancing response can be. We think it is important to monitor upside growth as well. In our opinion, it is also important to understand a surge in revenues to determine if the trend is an aberration or something that is likely to sustain.

4. An established rainy day/budget stabilization reserve

A formalized financial reserve policy is a consistent feature of most of Standard & Poor's highly rated credits. For some governments, such a policy has been standard operating procedure for decades. Others focused attention on this as a risk management tool following the recessions of the early 1990s, 2001, and especially the Great Recession when the country experienced sustained revenue weakness that required severe budget reduction measures. In our view, reserves provide financial flexibility to react to budget shortfalls or other unforeseen circumstances in a timely manner. No one level or type of reserve is considered optimal from Standard & Poor's perspective. We have seen many different types of reserves factor into an improved government credit profile. In our view, some important factors government officials generally consider when establishing a reserve are:

- The government's cash flow/operating requirements;
- The historical volatility of revenues and expenditures through economic cycles;
- Susceptibility to natural disaster events;
- Whether the fund will be a legal requirement or an informal policy;
- Whether formal policies are established outlining under what circumstances reserves can be drawn down; and
- Whether there will be a mechanism to rebuild reserves once they are used.

In our view, the use of budget stabilization reserves is not in and of itself a credit weakness. The reserves are in place to be used. However, we believe that a balanced approach to using reserves is important in most cases, because full depletion of reserves in one year without any other budget adjustments creates a structural budget gap in the following year if economic trends continue to be weak. As they've done in the past, state and local governments are

re-examining their fund balance reserve policies to determine their adequacy and, in many cases, have adjusted their funding targets.

5. Prioritized spending plans and established contingency plans for operating budgets

We have found that contingency planning is an ongoing exercise for most highly rated governments. Prioritized spending and contingency plans have always been important risk management tools that allow state and local governments to adjust to changes in the economic and revenue environment. In our analysis, we consider whether a government has contingency plans and options to address changing economic conditions, intergovernmental fund shifts, and budget imbalance when it occurs. This would include an analysis of the following:

- What part of the budget is discretionary;
- What spending areas can be legally or practically reduced;
- The time frame necessary to achieve reductions of various programs;
- Where revenue flexibility exists; and
- An analysis of revenue under varying economic and policy scenarios.

6. Strong long-term and contingent liability management

In our view, recognition and management of long-term and contingent liabilities are characteristics of highly rated credits. We continue to incorporate governmental liability management into our rating analysis, as we have for decades, with an emphasis on how liabilities are managed over time (see "Contingent Liquidity Risks In U.S. Public Finance Instruments: Methodology And Assumptions," March 5, 2012). In particular, Standard & Poor's views pension and other postemployment benefit obligations as long-term liabilities (see "The Decline In U.S. States' Pension Funding Decelerates, But Reform And Reporting Issues Loom Large," June 21, 2012; and "The OPEB Burden Varies Widely Among U.S. States," published Sept. 22, 2011). While the funding schedule for pension and OPEB can be more flexible than that for a fixed-debt repayment, it can also be more volatile and may cause fiscal stress if not managed, in our opinion. The size of the unfunded liabilities and the annual costs associated with funding them, relative to the budget, are important credit factors in our review of state and local governments. Currently, pension systems are undergoing the most significant level of reform in decades, which we view as a credit positive and highlights the importance of managing these liabilities. We will continue to differentiate credits where these long-term liabilities are large and growing, contributions are less than required, and there has been limited action on reform initiatives.

Non-essential areas of government operations and services that may fall out of the traditional general fund focus could also result in contingent liabilities and create budget pressures, if not properly managed. Stadiums, convention centers, and health care entities, as well as various other enterprise operations, could also cause funding challenges at the local level, even when there is no clear guarantee or legal responsibility for the government to provide funding. At the state level, we believe that local government fiscal difficulties can increase and become a funding and policy challenge for the state.

7. A multiyear financial plan in place that considers the affordability of actions or plans before they are part of the annual budget

In our analysis, we consider whether this plan is comprehensive. During a sustained economic recovery, we see program enhancements and tax reductions as typical. We believe that pension funds that performed at record levels provided incentive to expand or enhance benefits. Elected officials will be ultimately responsible for the decisions

necessary to restore out-year budget balance. In our view, even when there is legal authority to raise taxes, there may not be a practical ability to do so because it can be politically unpopular. Having detailed information on costs associated with various policy decisions can provide greater transparency to the budget process, in our view. We consider multiyear planning as an important part of this process. Standard & Poor's realizes that the out-years of a multiyear plan are subject to significant change. They provide a model to evaluate how various budget initiatives affect out-year revenues, spending, and reserve levels. These plans will often have out-year gaps projected, which we believe allows governments to work out, in advance, the optimal method of restoring fiscal balance.

8. A formal debt management policy in place to evaluate future debt profile

In the past decade, many states and local governments have developed debt affordability guidelines or models, which we regard as a positive development. This affordability analysis generally includes a systematic review of existing and proposed debt, and how they will affect a government's future financial profile. In many cases, these policies address exposure to variable-rate debt, swaps, and other contingent liabilities. They can also include criteria for when refunding bonds are allowed, amortization periods, and what types of projects can be funded through debt issuance. The affordability measures are typically tied to a government's revenues or expenditures, debt per capita, and debt per capita as a percent of either gross state product (states) or market value (local governments). The impact of these policies on a long-term credit rating will depend on our view of how the government establishes and uses the policies, and the track record in adhering to the affordability parameters established in the policies, especially during economic downturns. We believe the process enhances the capital budgeting and related policy decisions regarding debt issuance and amortization. In our view, these policies have moderated leverage at the state and local level.

9. A pay-as-you-go financing strategy as part of the operating and capital budget

In our opinion, pay-as-you-go financing can be a sound financing policy. Not only does it lower debt service costs, but it also provides operating budget flexibility when the economy or revenue growth slows. We see the use of pay-as-you-go financing as a more significant funding option when tax revenue growth is uncertain, given the fact that pay-as-you-go financing may provide additional budget flexibility in an uncertain revenue environment. Depending on the government's overall balance-sheet profile, we believe that the government can achieve a better match between nonrecurring revenues and nonrecurring expenditures if it uses this type of financing.

10. A well-defined and coordinated economic development strategy

In addition to historical economic trends, we consider each government's economic development initiatives and future growth prospects as they are likely to affect future revenue-generating capacity. Effective economic development programs typically take a long time to implement. We believe that the question for many state and local governments now is not whether there should be a formal economic development program, but rather how significant a resource commitment should be dedicated to running these programs and offering incentives. These are government policy decisions involving cost benefit analysis that are generally outside the credit rating process. However, if these economic development programs and strategies create employment, enhance diversification, and generate solid income growth, they could have a positive effect on a government credit rating over the long term. To the extent that there is a net revenue benefit to a government, this could also be a positive credit factor. We have seen economic development programs expand in the past 20 years with strategies increasingly becoming regional in nature, with a more coordinated approach between state and local governments.

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McGRAW-HILL

FY 2015 BUDGET PRESENTATION

Harwich, MA

Town Administrator: Christopher Clark
Finance Director: David Ryan

S&P: THE TOP TEN MANAGEMENT CHARACTERISTICS OF HIGHLY RATED U.S. PUBLIC FINANCE ISSUERS

1. Focus on Structural Balance
2. Strong Liquidity Management
3. Regular Economic and Revenue Updates to Identify Shortfalls Early
4. An Established Rainy Day/Budget Stabilization Reserve
5. Prioritized Spending Plans and Established Contingency Plans for Operating Budgets
6. Strong Long-Term and Contingent Liability Management (OPEB)
7. A Multi-Year Financial Plan in Place that Considers the Affordability of Actions or Plans before they become part of the Annual Budget.
8. A Formal Debt Management Policy in Place to Evaluate Future Debt Profile
9. A Pay-As-You-Go Financing Strategy as Part of the Operating and Capital Budget
10. A Well-Defined and Coordinated Economic Development Strategy

STANDARD & POORS OBSERVATIONS OF HARWICH

- Extremely strong property wealth due to its oceanfront location
- Good financial position and financial management policies
- A still good financial reserve position despite recent declines
- Moderate to low debt burden, coupled with rapid principal amortization; and
- Sizable long-term pension and other Post employment benefit (OPEB) liabilities, though recent changes could reduce these liabilities a bit over the next few years.

BUDGET REVENUE AND EXPENSE SUMMARY

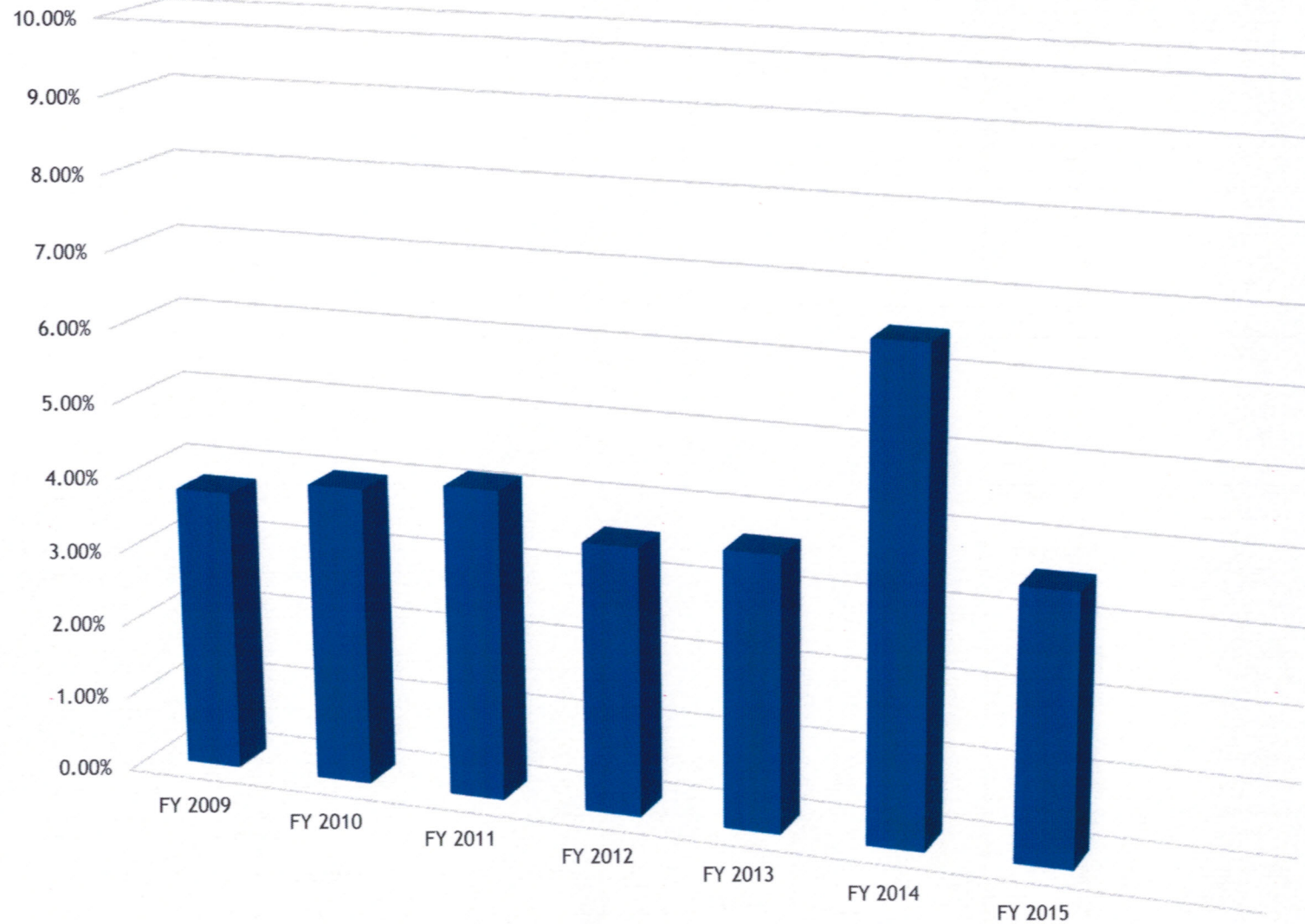
Displaying the Projected Budget
for FY 2015

- The Total Revenue for FY2015 is \$53,471,738 and the Total anticipated expenditures are \$53,471,738 creating a balanced budget.
- Budget Highlights
- Major Initiatives
 - Monomony Regionalization
 - HR/Asst.TA & Reorganization
 - Infrastructure
 - Self-Sufficiency

HISTORICAL TAX REVENUE DATA

For Fiscal Years 2009-2015

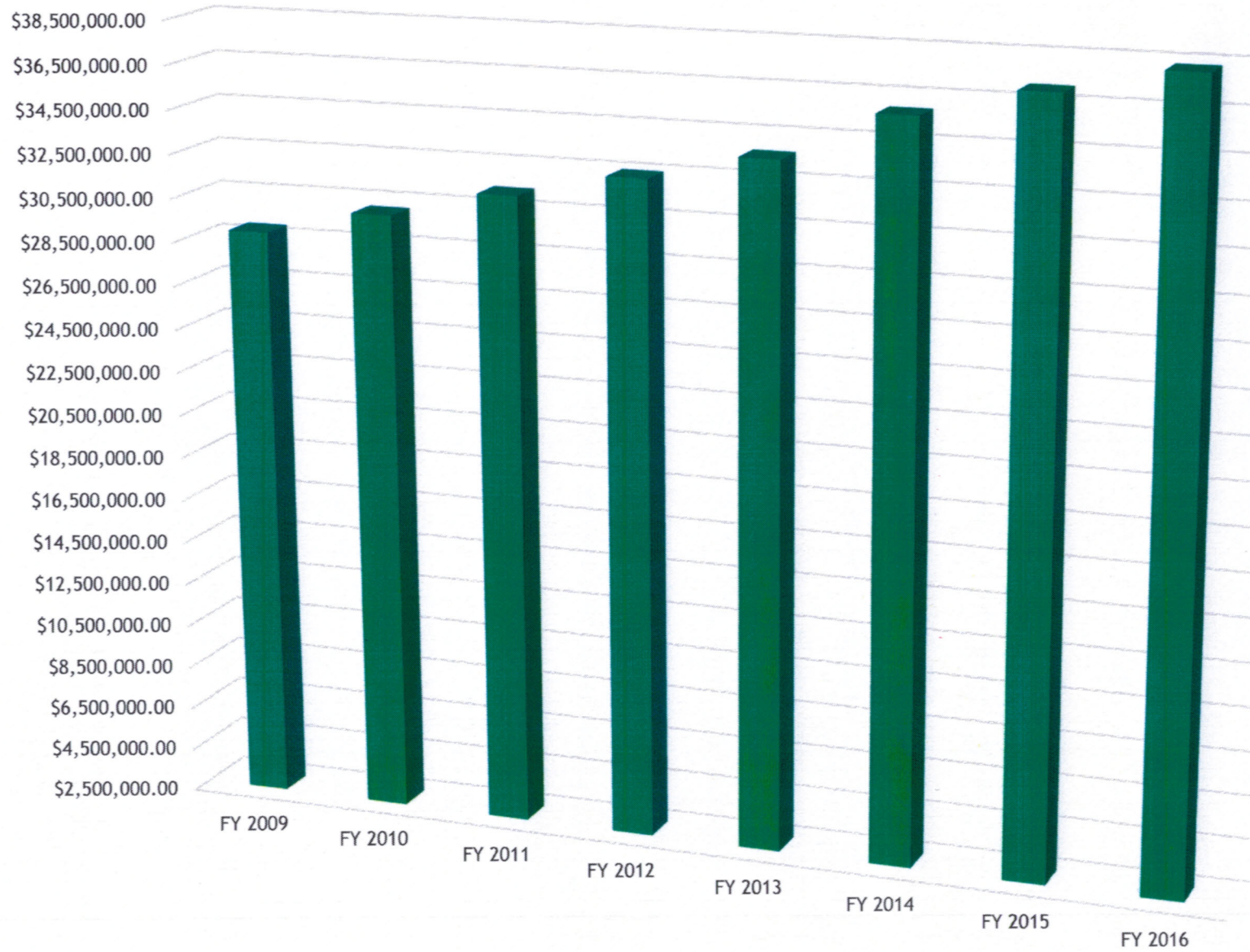
Base Levy Limit Percent Increase



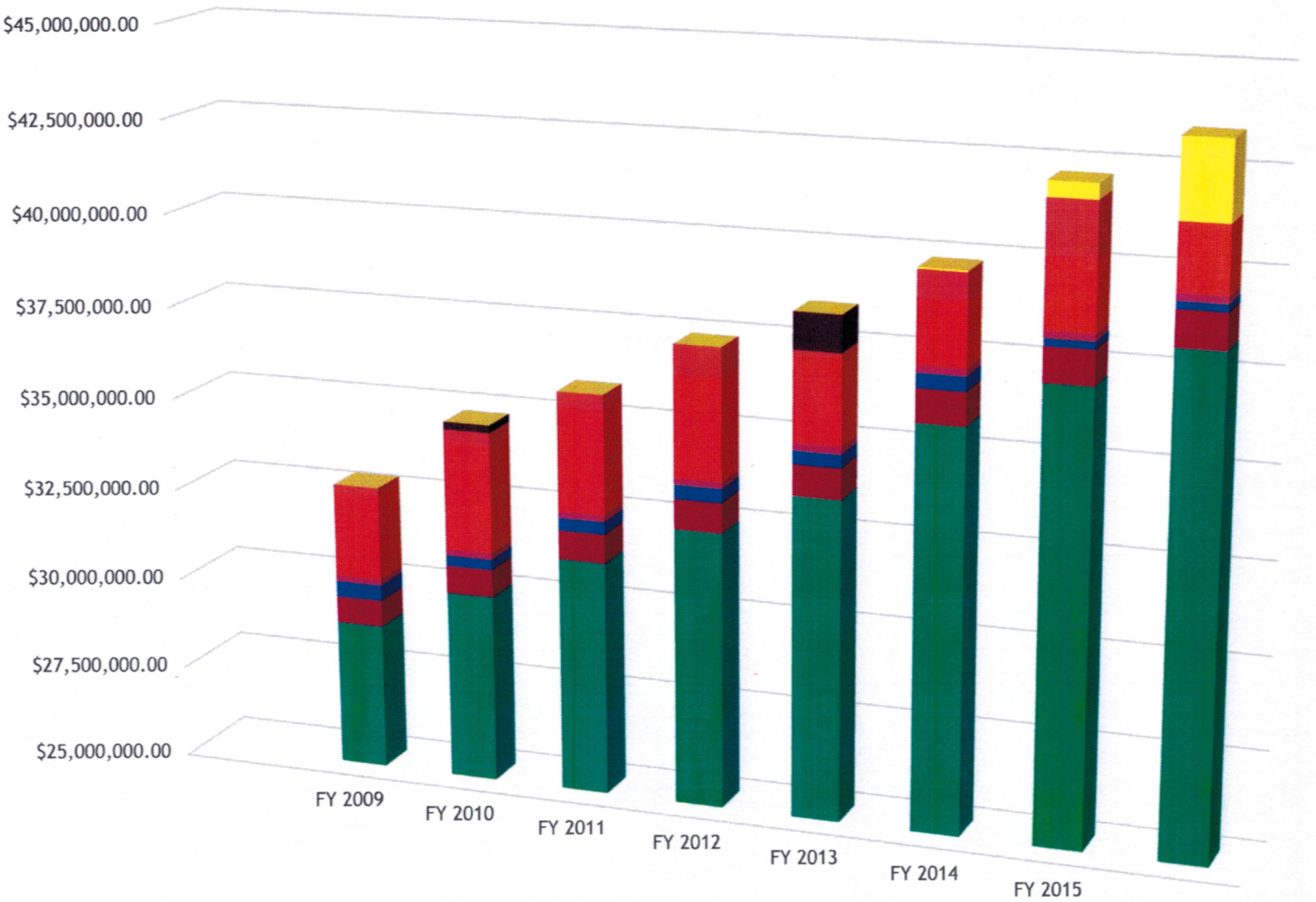
FY 2014 Override Levy \$990,193 = 2.9%

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
% Increase	0.0377	0.0399	0.0415	0.0358	0.0367	0.0651	0.0359	

Base Levy Limit in Dollars



Levy Limit Calculation

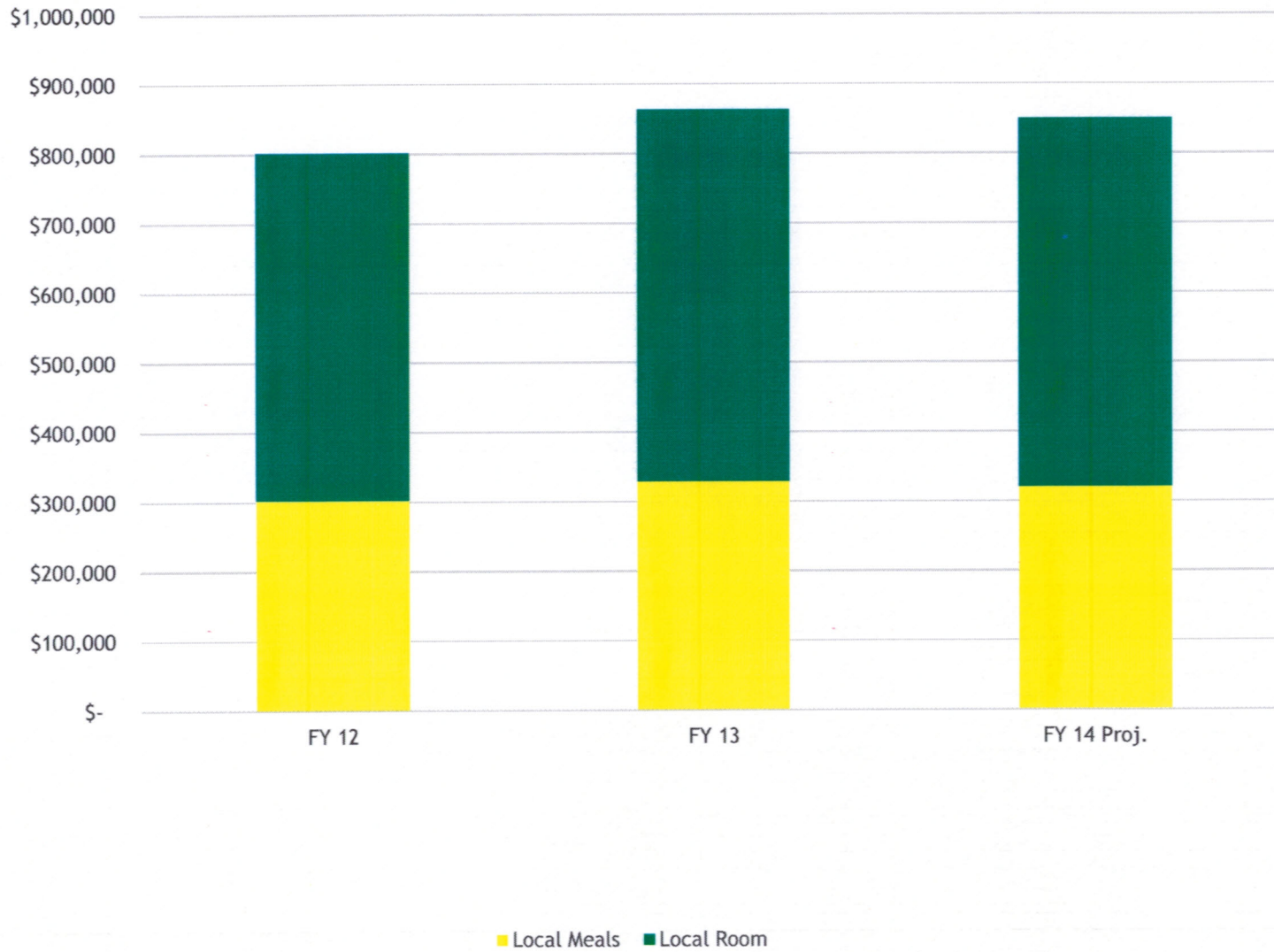


■ Base Levy Limit ■ Plus 2.50% ■ Growth (Actual) ■ CC Commission ■ Debt Exclusion ■ Capital Exclusion ■ Permanent Override ■ Monomy Excl. Debt

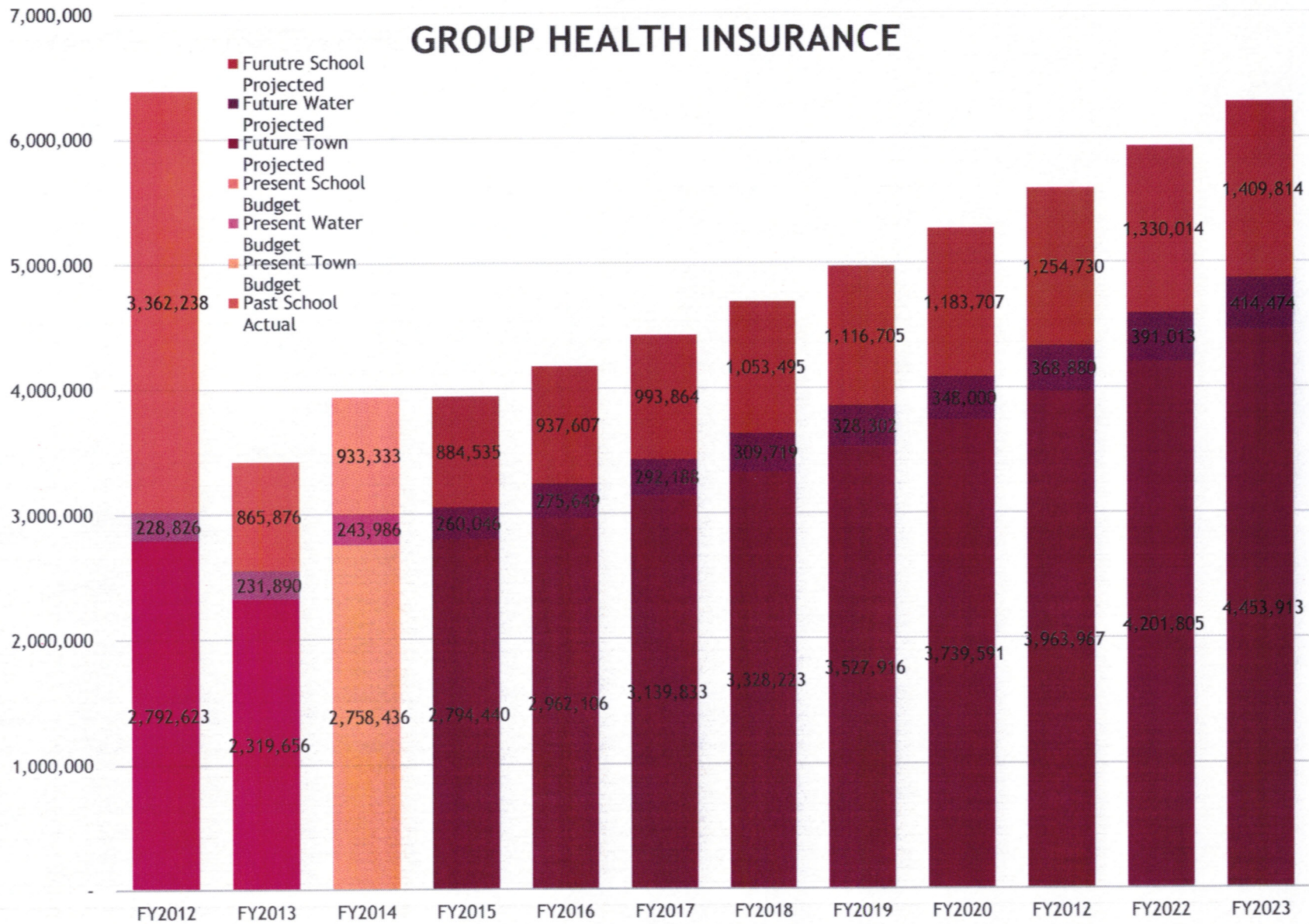
SELECT BUDGET DATA

Charts for Past, Present and Future

Local Meals and Local Room Tax Revenues



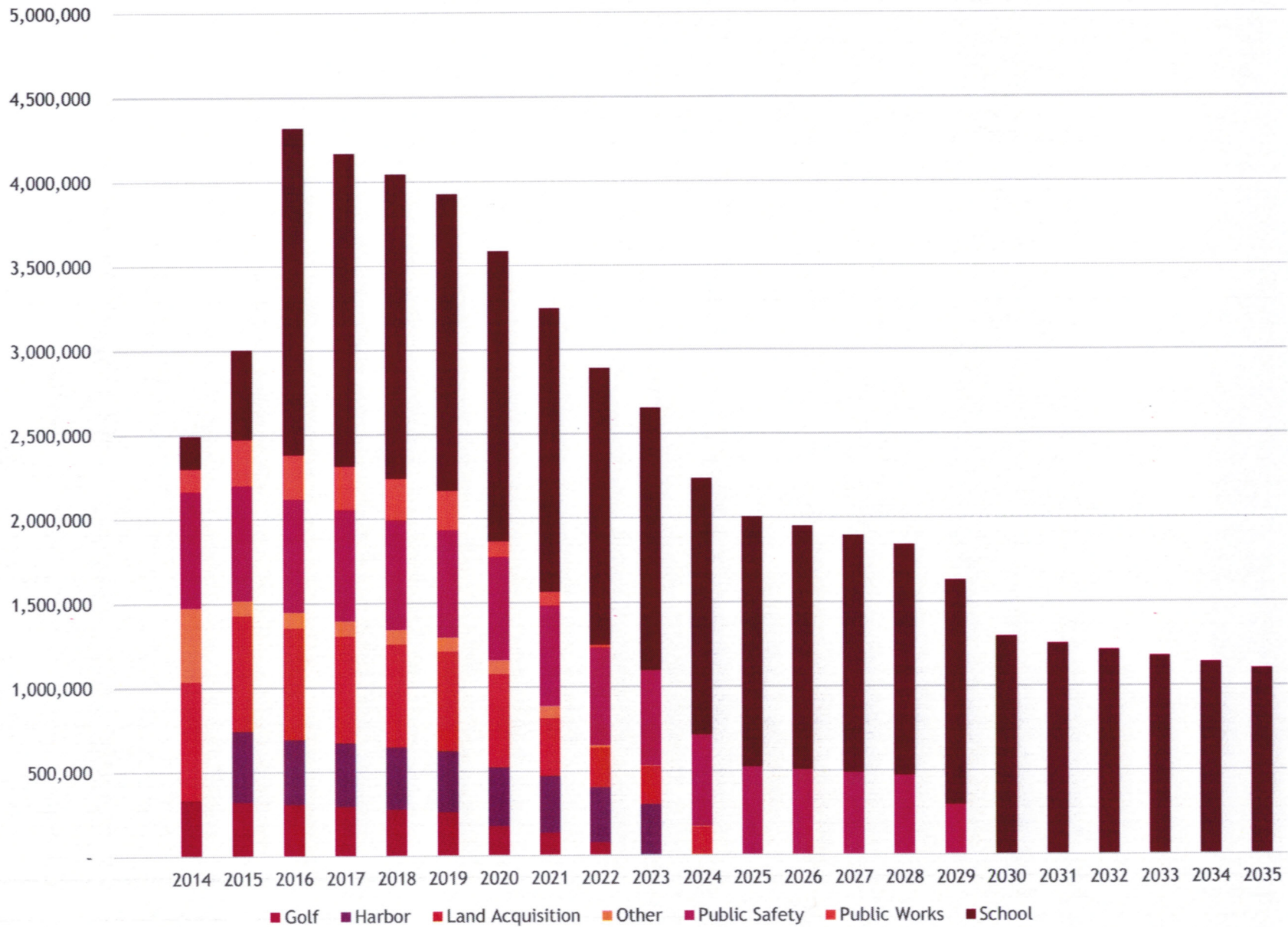
GROUP HEALTH INSURANCE



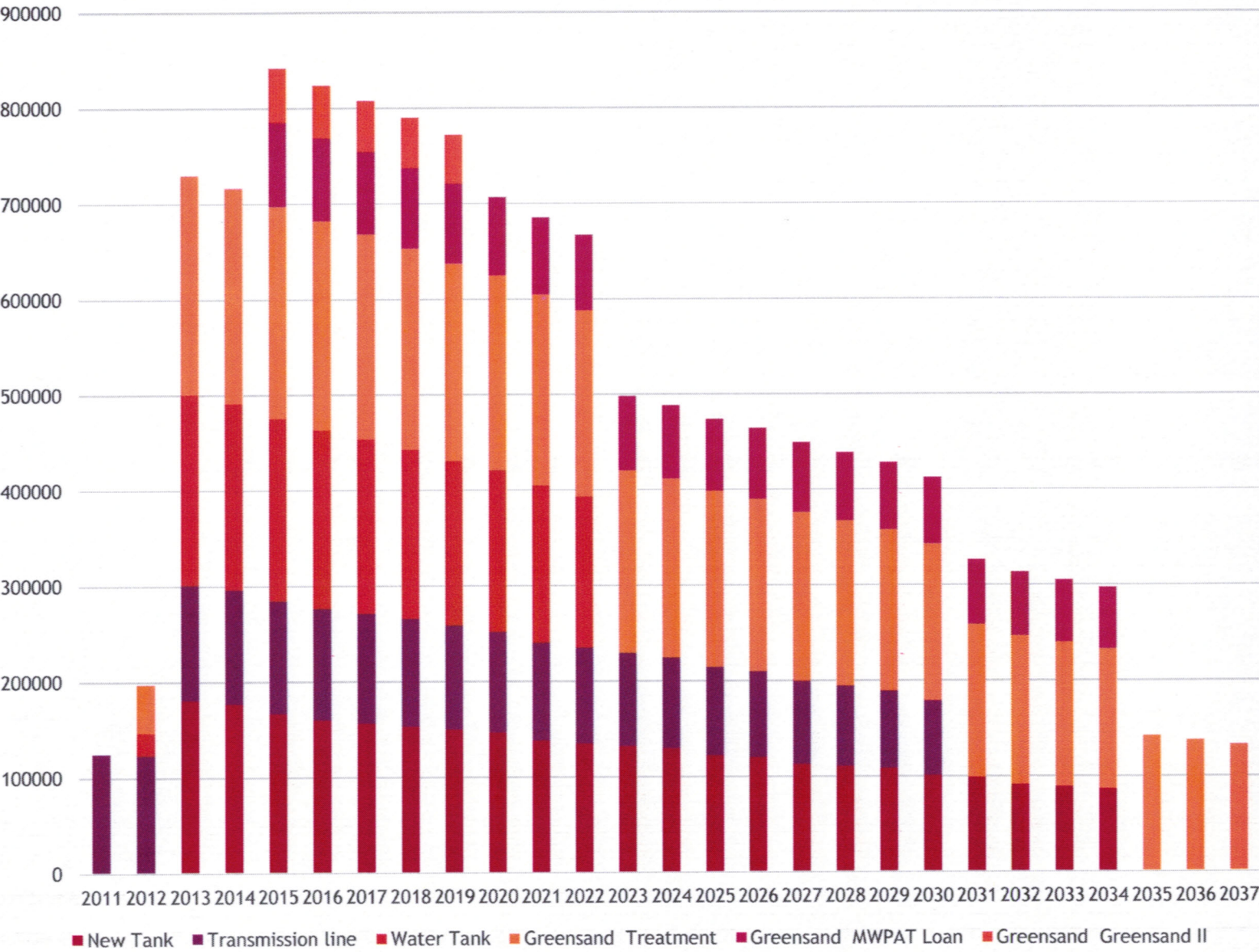
DEBT STRUCTURE

Future Planning

This image shows a blank, aged, cream-colored page, likely an endpaper or flyleaf of a book. The paper has a slightly textured appearance with some minor creases and discoloration, particularly towards the top edge where faint horizontal lines are visible. The overall tone is a warm, off-white or light beige.



Water Debt Service



CAPITAL BUDGET

Administration's Recommended Capital Funding Plan for FY 15

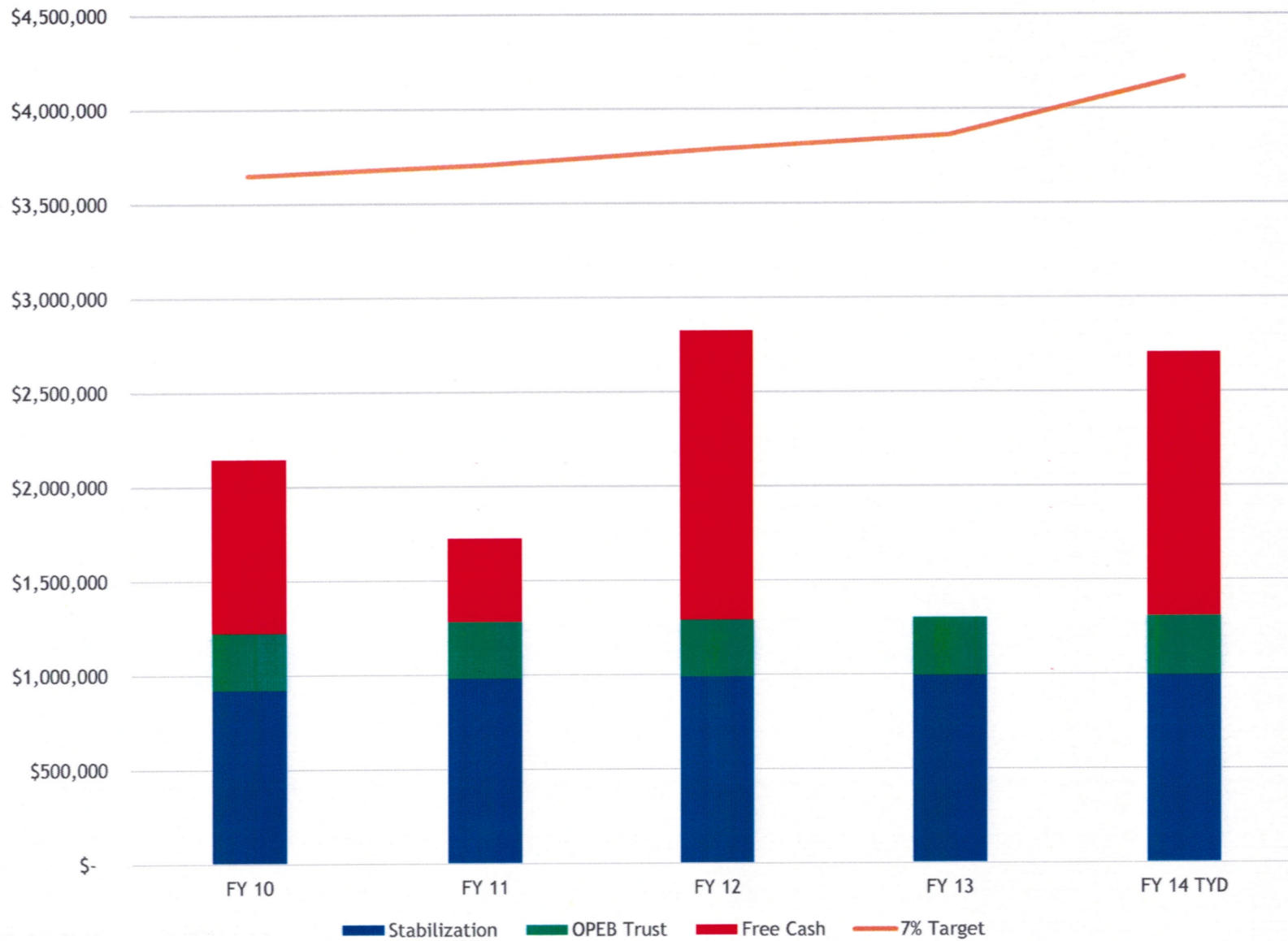
•Fire replace power stretchers	\$56,000	capital exemption
•Fire ambulance replacement	\$240,000	capital exemption
•Highway roads and sidewalks	\$500,000	debt exclusion
•Highway transfer station scale	\$250,000	capital exemption
•Highway vehicle replacements	\$280,975	capital exemption
•Harbor fire pump for boat	\$ 21,715	tax levy
•Harbor replace Alan harbor bathroom	\$ 75,000	tax levy
•Harbor Wychmere town dock repair	\$ 622,600	grant and \$ 478,400 borrowing to be paid from harbor receipts
•Harbor maintenance dredging	\$500,000	capital exemption
•Library carpet for Brooks free library	\$112,000	tax levy
•Wastewater CWMP completion	\$150,000	tax levy
•Wastewater Muddy Creek construction	\$1,750,000	grant

All Other items that were submitted but not listed are deemed to be deferred for future years.

RESERVE FUND BALANCES

Historical and Projected

Reserves with Modest Target of 7 %



THANK YOU FOR YOUR
ATTENTION

ANY QUESTIONS